February 28, 2012

Salutations - Good morning distinguished ladies and gentleman. Extend thanks to organizers (Standard Bank) for the invitation to speak.....

I was asked to speak today about what, we, at the Nigerian Stock Exchange are doing in the area of enhancing market liquidity, diversifying the index (sectors represented on the exchange), improving disclosures from listed companies and the ability to short sell. While these are all very critical and relevant topics; all of which I will address individually, I do want to start off by providing some overall context for the ongoing journey that we embarked upon in April 2011:

In 2011, the Nigerian capital market was gripped by turbulence and volatility. Despite the many reforms embarked upon by the NSE and the Securities and Exchange Commission (SEC), other financial market events (e.g., interest rates, banking reforms and challenges resulting from the Euro-zone debt crisis) marred investors' appetite for shares. The market saw no noteworthy rally throughout the year, as many funds and asset managers continued to cut their equity exposure and/or sell down to cover deteriorating positions in the US and Euro-zone.

While these factors for the most part are not within our control, this does not dampen our firm belief at the NSE, that successful delivery of our key market reform and development initiatives will serve as a good and sustainable counterbalance.

Throughout 2011 and in the early stages of 2012, we continue to maintain laser focus on transforming the Exchange and reforming the market to be more transparent, efficient and innovative and liquid. Our goal, as publicly stated in recent times, is to be the leading exchange and gateway to Africa when it comes to capital formation and investing; ala our goal to have "\$1 trillion market capitalization with 5 products in 5 years".

I will like to briefly share with you some of the things that we are presently working on or have completed:

I. Enhancing Market Liquidity and Market Structure

Market Making:

One of our key initiatives in the area of shoring up liquidity and depth in the equities market is the introduction of Primary Market Makers.

The Rules and Guidelines have been submitted to Securities and Exchange Commission for approval. We received a total of seventeen applications from the Broker-Dealer

community, which concurrently are going through a rigorous and transparent selection process that we instituted. Under this program, each security will be assigned one primary market maker. We plan to select 10 primary market makers and to start rolling out the program in conjunction with other market structure enhancements by first quarter 2012.

Securities Lending and Short Selling:

In conjunction with the rollout of the market making program, we plan to implement securities lending and short selling (with prohibition for 'naked' short selling). The industry has come together to develop guidelines around securities lending that conform to international standards. This will help create additional trading volume, improve pricing efficiency and liquidity. Our rules and guidelines pertaining to these programs are currently pending SEC approvals.

New Products:

In 2011, the Exchange launched two (2) new products as a market development strategy to address low investor confidence and liquidity. The second closed-end fund, the Sim Capital Alliance Value Fund, was admitted to the Main Board in August, giving investors the opportunity to own shares in a collective investment scheme that holds equities and non-equities based assets, providing access to a specialized fund that trades on the floor of the exchange.

To close out the year on a high note, the first ETF, the ABSA NewGold ETF, was launched in December, providing investors direct access to an efficient and cost-effective way to invest in gold, and an opportunity to hedge currency. This product has been well received in Nigeria.

Share Buy Back:

The Exchange's share buy-back guidelines, which comply with the Companies and Allied Matters Act (CAMA) of 2004 and the Investment Securities Act (ISA) of 2007, have been approved by SEC. Companies are now allowed to buy back up-to-15% of their shares which must be retired. And to guard against manipulation, companies may not issue the same types of securities for a period of one year.

Fixed Income Retail/Secondary Trading:

As you might be aware, the fixed income market in Nigeria was very vibrant last year. Currently listed on the Nigerian Stock Exchange are 53 fixed income securities divided into Federal Government Bonds – 27, State Government Bonds – 11 and Corporate Bonds – 15. As of this month, 53 securities have a market value of N8.273 trillion (US\$52.23 billion). Fixed income

securities accounted for 56.2% of market capitalization of N14.73 trillion (US\$93 billion). The balance is equities.

We have seen a significant uptick in the bond market activity, especially on primary issues. Secondary market trading (primarily OTC) has also been very active, providing ample opportunities to investors (albeit, mostly institutional) to diversify their portfolios. To the banks, it has enabled them to diversify their income source in a rising interest rates environment. Our plan is develop a viable retail trading platform for fixed income in 2012, thus providing retail investors another asset class that can be used in building diversified investment portfolios.

II. Diversifying the index (sectors represented on the exchange)

Listing Efforts:

The NSE, with nearly 200 listed companies, remains a predominantly equities-driven market with certain sectors dominating trading and market capitalization. On the Main Board, the Financial Services sector leads the pack with 30.82% of the board's total market capitalization; Consumer Goods are a close-second with 30.64%, and Industrial Goods account for 29.27%.

The key storyline here is that the key drivers of the Nigerian economy hardly feature in this mix. Agriculture, oil & gas, power and telecoms collectively constitute a very small fraction of the market capitalization on the Exchange. As at Q3 2011, agriculture contributed nearly 44% to GDP, yet was less than 0.3% of market cap; oil & gas was 14% of GDP but a mere 3% of market cap (all downstream); power (specifically, electricity) at just over 3% of GDP, is not represented on our market at and lastly telecoms, with 5.5% of GDP (not to mention almost 90 million GSM subscribers and counting) was just 0.5% of market cap.

In the Alternative Securities Market (ASeM), our small and medium enterprise board, Oil & Gas leads the pack with 73.69% of the board's total market capitalization, while Services accounted for 13.73%. However, only 12 companies are listed on ASeM.

So what are we doing about this? Through a newly created "Listing Sales and Retention" department, we now apply laser focused business development discipline in our efforts to significantly increase the number of companies and instruments listed on our market. This approach clearly is a departure from the past when the Exchange waited for quoted companies to submit applications for listings.

Additionally, having listened extensively to feedback from prospect companies, we recently concluded a comprehensive review and revision of our Listing standards, which are awaiting SEC

approval. We introduced quantitative criteria and now offer greater flexibility, while positioning ourselves as a competitive listing destination. We are also facilitating foreign listed companies to have access to a dual listing on our market.

In the oil and gas sector (upstream), for example, where we continue to have ongoing discussions with indigenous oil and gas upstream companies, a major opportunity exists for these companies to list, further to the local content legislation and the sale of marginal fields by the oil majors. The pressure for reform brought about by the recent nationwide strike over the fuel subsidy removal has added momentum to the passage of the Petroleum Industry Bill, which is now being fast tracked. We believe that this will provide a further boost to listing prospects in the upstream sector. In the mid- and downstream, ongoing deregulation should also boost listings, as investors seek to raise financing for major projects such as refineries and other aspects of the sector's value chain.

A significant boost to this sector would be from the listing of NNPC and their joint venture arrangements. This too should be encouraged by the passage of the Petroleum Industry Bill, which will spur a change in the corporate structure of these entities. The Exchange has been active in advocacy on this front as well, and has made a submission to the task force in respect of the PIB to ensure that listed companies are not penalized under any local content provisions.

Overall, while we still have a long way to go, we are starting to see measured progress, as to date, we now have about 550 companies in our listing prospect pipeline; with at least 20 giving strong indications to come to market this year.

Value-Added Services:

In 2012, the Exchange (with selected partners) will begin offering listed companies value-added services aimed at ensuring all companies realize the value of a listing. All the value-added services are geared towards providing more transparency for investors, and helping companies maximize value for shareholders. These include services in the areas of:

- Corporate Governance
- Investor Relations
- Institutional Services
- Equity Research Coverage
- Corporate Access

Just yesterday, The Exchange and our partner (Africa Practice) hosted our first IR forum for listed and prospect companies, to sensitize on using IR to enhance equity valuation.

III. Improving Disclosures from listed/quoted companies

The Exchange, as part of the on-going effort to promote market efficiency, market integrity and rebuild investor protection has ramped up its regulatory oversight by putting in place, stronger regulatory programs for continuous disclosure obligation by corporates. This is in terms of both financial information and on-going material information disclosures. Our minimum requirements stipulate the release of audited financial information three months (90 days) after year end, while quarterly financial statements should be released 45 days after the end of the quarter. We are taking proactive measures towards encouraging compliance by alerting companies ahead of their filing dates.

At the time we started the alert initiative in June 2011, the compliance level was about 64% and by December it upped to 96% after a series of regulatory actions. A review of the unaudited 9 months accounts for companies with December year end (119 companies) showed that about 87% of active companies on the main board filed on time leaving default filings to 7% while 6% are outstanding.

We encourage companies to file ahead of the due date and for the December year end category, Nestle Nigeria Plc. released its results on February 21, 2012 ahead of the March 31st due date. We expect that the remaining 118 companies in this category will file on or before March 31, 2012.

To enhance the disclosure process, we are in the process of automating company reporting processes and developing a reliable calendar of reporting activity.

IV. Other Initiatives

Investors' Clinic series:

As the pressure mounts for faster and deeper reforms, liquidity and local investor participation remain key areas of focus. With foreign investors carrying the market, volatility is a lingering concern. Despite the relatively low prices of shares, lack of local investor participation continues to impede market recovery.

In collaboration with Morgan Stanley, we launched our maiden edition of "The NSE Investors' Clinic series" here in Lagos, on February 15 2012. The event, which was well attended (over 300 top retail investors/HNIs from stock-broking firms), is one of the new investor education initiatives designed by the Exchange to address the prevailing low investor confidence in the market.

The Investors' Clinic series will help educate retail investors about portfolio diversification principles and the risks and rewards associated with investing in the market. Their stockbrokers will also be exposed to ways of helping them restructure their portfolios to enable them make informed investment decisions. Our plan is to have few more of these in the different geopolitical regions of the country, in 2012.

Trading Platform Upgrade (NASDAQ OMX):

The NSE will begin development of its new trading platform and supporting technology infrastructure in 2012. Implementation of the *NASDAQ OMX X-stream* market management solution will improve operator and investor experiences in dealing with the Exchange, and provide the foundation for future market development.

Last month, the Exchange launched its low-latency, high-performance, high-capacity, low-cost broker virtual private network (VPN). This supports the NSE's strategy of enabling cost effective and efficient execution of trades from broker-dealer offices; it forms a major backbone of the ongoing technology transformation program.

In 2012, the Exchange will also define and implement approaches to monetizing its market data outputs, as well as the provision of other relevant high-quality services to the broker-dealer community and wider eco-system.

V. Closing Remarks

Coming into 2012, we are emerging stronger and more focused. We continue to pay close attention to the Euro-zone debt crisis which remains a key risk to the world economy; to other market reforms around the world; and to the regions that are still experiencing political and economic challenges that impact the global markets. Reports point to OECD countries experiencing slower growth in 2012 – including slow growth in the US and a mild recession in the Euro-zone, while non-OECD countries, including African and other emerging economies, have been earmarked to sustain world growth. The Nigerian capital market is poised to seize this opportunity. We anticipate continued market reforms, initiatives to support economic growth, a tighter fiscal budget, an operational sovereign wealth fund, and stronger domestic demand – all key components of higher disposable income, lower cost of doing business, and lower exchange and interest rates.

In 2012, the NSE will build upon our broad objective to create an African institution that competes effectively in the global marketplace. We will continue to evolve our market along

the principles of targeted business development in a strong regulatory environment, underpinned by cutting edge technology with first rate investor protection strategies.

The new Nigerian Stock Exchange provides a safe vehicle for long-term 'saving' and 'borrowing', and hence, efficient use of financial resources. In terms of global exchange trends, this cyclical market downturn that we have experienced in Nigeria, presents incredible opportunity for investors. As the reforms continue, we remain confident that the equity market will begin to recover its vibrancy and pave the way for us to become "the gateway to African markets".